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C O N F I D E N T I A L SECTION 01 OF 03 MANAGUA 000625

SIPDIS

STATE FOR WHA/CEN, WHA/EPSC AND EEB  
STATE PASS OPIC  
TREASURY FOR SARA SENICH  
USDOC FOR 4332/ITA/MAC/WH/MSIEGELMAN

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SUBJECT: NICARAGUA: EMBEZZLEMENT CRIPPLES MICROFINANCE INSTITUTION

REF: A) MANAGUA 116 B) 08 MANAGUA 932

Classified By: Ambassador Robert J. Callahan for reasons 1.4b & d.

Summary

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11. (C) Throughout the last year, U.S. and other international investors have been embroiled in a bitter dispute over control of the Board of Directors of one of the largest and most successful microfinance institutions in Nicaragua, the Association for the Development of Small, Medium and Micro Businesses (ACODEP). The Board removed the outgoing president of ACODEP in 2008 for embezzlement and poor lending decisions. In retribution, he exploited his senior-level GON contacts to have himself "legally" reinstated as president for a two-month period in 2009. During these two months, according to the current Board and its investors, he embezzled \$3 to \$5 million of the association's assets, partially facilitated by officials from one of the country's largest banks. Disturbingly, none of these transactions appears to have triggered Nicaraguan banks to file suspicious activity reports, which by law were required because many of the transactions surpassed the \$10,000 mark. While ACODEP finally succeeded in removing this individual as president in late May and obtained an official certification establishing a newly-constituted Board backed by its investors, the financial damage done to the institution as a result of this alleged embezzlement is severe. ACODEP'S current president believes it will survive. Meanwhile, the new Board has filed a criminal complaint against the former president with the Nicaraguan National Police, which is investigating the matter. End summary.

ACODEP: A Model of Microfinance Success...

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12. (C) On June 17, econoff met with Julio Paniagua Lopez, President of the Board of Directors for the Association for the Development of Small, Medium and Micro Businesses (ACODEP), a prominent Nicaraguan microfinance institution (MFI) which provides loans to agricultural producers and family-run businesses. ACODEP maintains 40 branches throughout Nicaragua and has approximately \$25 million in assets and about 57,000 clients, ranking it among the top three MFIs in the country. It has operated since 1990 and offers loans as small as \$100 to some of the poorest Nicaraguans who otherwise have no access to credit. ACODEP is a member in good standing of the Association of Nicaraguan

Microfinance Institutions (ASOMIF), a nineteen-member organization which represents and advocates on behalf of the industry here.

13. (C) ACODEP's primary investors, all international, include the following:

--Global Partnerships, a Seattle-based non-profit organization which works in 26 Latin American countries.

--Developing World Markets, based in Connecticut, a "socially oriented" investment bank that channels capital to MFIs in over 20 countries worldwide.

--The Wisconsin Coordinating Council on Nicaragua, a non-profit organization headquartered in Madison, WI, which focuses almost exclusively on funding MFIs in Nicaragua.

--Deutsche Bank's Office of Social Investment Funds.

--Symbiotics, a Swiss company that specializes in microfinance investment funds.

All of these investors visit Nicaragua regularly or maintain representative offices in Managua. We also understand that the Overseas Private Investment Corporation (OPIC) has provided approximately \$2 million in financing to ACODEP via some of the abovementioned U.S. investors.

...But as Nicaraguan Investments Go, Caveat Emptor

14. (C) Despite ACODEP's successful history, during the last year ACODEP's investors have engaged in a bitter dispute over control of ACODEP's Board of Directors and its Nicaraguan bank accounts. At the center of the dispute is Armando Jose Garcia Campos, a founder of ACODEP who served as its president for almost twenty years. According to current President Paniagua--and the aforementioned investors--an internal audit in 2008 revealed that Garcia had embezzled thousands of dollars from ACODEP during the previous few years and had made a series of very poor lending decisions, which severely damaged the association's balance sheet. The ACODEP Board of Directors initially attempted to negotiate a graceful exit for Garcia, but when they discovered additional evidence of more serious embezzlement, negotiations broke down and Garcia was relieved of his position.

15. (C) In response, in February 2009, Garcia exploited his close relationship with Nicaraguan Attorney General Hernan Estrada and the Ministry of Governance (MIGOB) to have himself "reinstated" as president of ACODEP on very dubious grounds. MIGOB serves as the GON's oversight body for microfinance institutions and is headed by Sandinista loyalist Ana Isabel Morales. On February 27, Garcia seized ACODEP offices in Managua by force using armed security personnel, and he took control of its assets. During the subsequent months of March and April, according to Paniagua and his investors, Garcia orchestrated the embezzlement of between \$3 to \$5 million dollars, essentially liquidating ACODEP's bank accounts. One apparent beneficiary of the embezzlement scheme was Alfonso Llanes, former head of the Nicaraguan Superintendency of Banks (SIBOIF). Paniagua alleges that Llanes collected \$250,000 for 3 weeks of work in "wages" from Garcia during his temporary reinstatement as head of ACODEP. Documentation provided by Paniagua suggests that Llanes' wife, Sheila Llanes, who works as General Manager at BanCentro's largest branch in Nicaragua, facilitated the scheme by cashing all of these checks.

ACODEP Responds

16. (C) ACODEP's Board of Directors and investors engaged in a full-court press against Garcia and hired a Nicaraguan attorney who filed numerous complaints from February through April with MIGOB regarding Garcia's actions to no avail. In addition, Paniagua sent letters of protest to BanCentro and

BanPro (Nicaragua,s two largest banks), where Garcia opened various shell accounts in different names to further facilitate his embezzlement scheme. Moreover, according to Paniagua, many of Garcia's transactions were well above \$10,000, which according to Nicaraguan law should have triggered suspicious activity reports for submission to the country's bank regulator, (SIBOIF); these reports were apparently never filed. Paniagua provided econoff a letter he delivered to SIBOIF on June 1, in which he laid out these concerns. Note: On June 16 econoff met with SIBOIF's President, Victor Urcuyo, who said he was unaware of the ACODEP situation. End Note.

#### Current Status

17. (C) Finally, after much back and forth with MIGOB, ACODEP successfully removed Garcia from the Board of Directors and obtained an official certification on May 25 naming Paniagua as the new president. Paniagua told econoff that he believes this certification puts an end to Garcia's involvement with ACODEP, primarily because "there is nothing left for him to steal." While ACODEP's accounts have now been unfrozen at BanCentro, Garcia still retains control over an account at BanPro. On May 29, ACODEP filed a criminal complaint against Garcia with the Nicaraguan National Police,s Economic Crimes Division. One of ACODEP's primary investors indicated to econoff that the police have started to interview individuals who aided Garcia during his two-month embezzlement and seizure of ACODEP,s assets. He said this could lead to a criminal case against Garcia, though this is far from certain given Nicaragua,s highly politicized judicial system.

#### Comment

18. (C) If the allegations against Mr. Garcia are true--and the documentation we have reviewed suggests that they are--it appears that he and his accomplices came close to destroying one of Nicaragua's most prominent microfinance institutions. While Paniagua and his investors believe they can weather the damage done to their balance sheet, they face additional challenges such as the "No Pago" movement (reftels) and the credit crunch posed by the global financial crisis. As a result of the ACODEP affair, the damage done to investor confidence in Nicaragua's microfinance sector is severe, as are the losses that U.S. charitable organizations and OPIC have suffered in the process.

CALLAHAN